

Employee Bonding Warranty

All of your employees are automatically bonded when they start working for the community government. There is no application to complete or notice to be provided when you hire new employees. However there is a warranty within the employee bond that will void the bond coverage for any employees who have committed fraud or a dishonest act during their employment with you or prior to their employment with you. The coverage for that particular employee is automatically terminated as soon as you, the employer, becomes aware of a past or present infidelity.

This clause is key to your employees being bonded. As individual bond applications are not required for employees when they are hired, your bonding company relies heavily on the community government, to perform proper back ground checks on the people they hire. This clause acts as protection for the bonding company because they would not normally bond an employee who has committed fraud or a dishonest act. The same is true and applies to employees who have had their bonding cancelled by a previous insurer where the bond was never reinstated.

If you have an employee who would not qualify for bonding because of the above conditions, we may still be able to obtain bonding for them. We can complete and individual application for that particular employee and submit it to the bond company for consideration. In some cases bonding may be granted under certain conditions and a lower limit of coverage

Employee Dishonesty and theft of money: \$1,000,000

Covering: *All employees of the community government, plus Money and Securities on the premises, or on the way to the bank, or at the bank for theft, disappearance destruction, robbery or safe burglary.*

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NORTHERN COMMUNITIES INSURANCE PROGRAM

FINANCE
SMART MANAGEMENT
PRACTICES

PREVENTING INTERNAL CRIME

Protecting Your Organization



Organizations spend much effort on preventing crime from **outside**; yet the biggest risk is actually **from within**.

Risks you can prepare for and help reduce losses include:

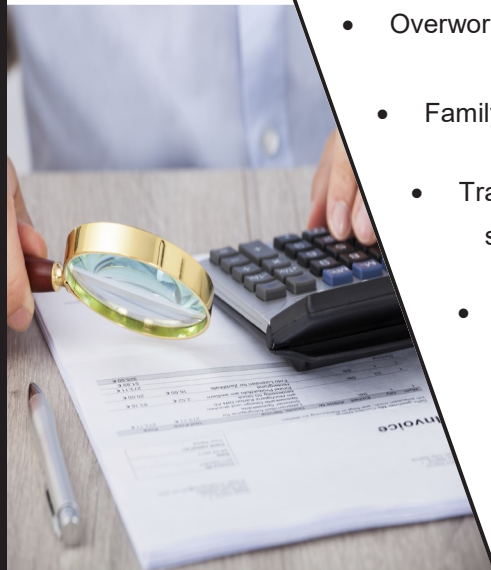
- Disappearing cash payments
- Overtime abuse
- Acting pay abuse
- Payment of fictitious claims



Controlling the Risk

Employee Dishonesty: Why does it happen?

- Certain acts are no longer regarded as being wrong or illegal by employees.
- Overworked and underpaid employees.
- Family income has remained static or has been reduced.
- Transfer of funds electronically depend on fewer people with specialized skills who know the vulnerable areas of banking
- Management changes and restructuring leave more opportunities for crime to remain undetected.
- An Employee sees a vulnerable area and takes advantage of it.
- Gambling, Drug and Alcohol Dependency, On-line shopping



Where does Employee Dishonesty happen?

- ✓ Accounting
- ✓ Purchasing
- ✓ Payroll
- ✓ Computer
- ✓ Cashier
- ✓ Warehousing / supplies
- ✓ Equipment Use

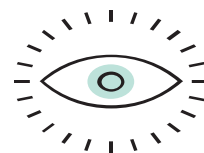
INDIVIDUAL WARNING SIGNS

- Individuals that seem to be living beyond their means, have high personal debts or you suspect they have some kind of addiction
- Employees who work long hours or refuse to take vacation
- A senior manager that seems to have a secretive management style that frequently over rides systems and controls in regards to spending.
- An unexplained close relationship with a supplier or customer



WARNING SIGNS

What to look for in an individual and in the work environment if you suspect criminal activity



CORPORATE WARNING SIGNS

- A work environment where employees feel they are owed for: unpaid overtime, an increase in wages, or more time off
- A sudden increase in accounts receivable
- Lax enforcement of internal controls
- High rates of turn over and absenteeism
- Lack of formal controls and accountability

SEPARATION OF RESPONSIBILITIES

Most fraudulent activities are carried out by **one person**. Internal controls should separate responsibilities in to **four key areas**:



1. Authorizing transactions
2. Preparing transactions
3. Collecting or paying cash
4. Maintaining records of accountability

INTERNAL CONTROLS

- Perform **internal and external** audits
- Make sure staff take their vacation for at least **one full week** at a time
- Passwords for computers should be **changed regularly**, and the person in charge of your computer system should not be allowed to have access to other employees' day to day activities
- Policies for the purchase of goods should be carefully drafted and strictly adhered to. Check that the vender addresses match the invoices and phone directories
- Procedures should **separate tasks** - payment authorization, preparation of cheques, signatures on cheques
- Procedures should include **electronic transfers**
- Electronic transfers also require **separation of duties** and should have **two signatures**
- Take care in hiring honest people with a known work history. Perform criminal background and reference checks on all potential employees.
- If the individual has worked in the North, you can usually find out from superintendents in other regions. Make the call.
- Avoid hiring relatives and spouses, especially in the same department or in a manager-subordinate position.
- If at all possible, rotate employees in positions of trust fairly frequently.
- Review employee empowerment- Are employees given too much control and authority or are controls lacking?
- Minimize the use of Corporate Credit Cards: Expense accounts should be submitted to justify the transactions on the card. Have policies and procedures regarding expense accounts and travel.
- Create an ethical environment for your staff. Have a code of conduct in place.
- Follow your Policies and Procedures.

If you suspect someone in your organization is engaging in criminal activity, or you have any questions about internal crime, please contact the NWTAC.



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